2011 Special Forces Pension Plan Annual Report

special forces

pension plan

2011 SFPP Annual Report

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Governance Statement

This is the Governance Statement of the
Special Forces Pension Plan Board

management of SFPP

The rules governing the Special Forces Pension Plan (SFPP) are found in the *Public Sector Pension Plans Act and Regulations*. The Minister of Finance (the Minister) holds the assets of the Plan in trust and is responsible in legislation for the administration of the Plan and the investment management of its assets.

The SFP Board (the Board) has seven members (three employer nominees, three employee nominees and one person nominated by the Government of Alberta) that are appointed by the Lieutenant Governor in Council. The Board is charged with a number of legislated responsibilities, including arranging actuarial valuations, recommending plan rule changes, setting contribution rates based on the actuary's recommendations, setting contribution rates to the Indexing Fund for post-1991 Cost-of-Living Adjustments (COLA), providing general guidelines on plan administration, and setting an investment policy for the Plan's assets.

The Minister has delegated the administration of the Plan to Alberta Pensions Services Corporation (APS), which is a provincial crown corporation governed by a board of directors, with representatives from the private sector, pension boards and the Government of Alberta. APS provides services to members, pensioners and employers, and is responsible for the day-to-day administration of SFPP.

Alberta Investment Management Corporation (AIMCo), a provincial crown corporation, manages and invests the assets on behalf of the Minister, and the Board.

The Auditor General of Alberta conducts an independent audit of the financial statements of SFPP to ensure they are presented fairly in all material aspects and that they are in accordance with Canadian generally accepted accounting principles. The Auditor General's office provides a report to the Board identifying any significant findings arising from the audit and other matters they believe should be brought to the Board's attention.

The Board also seeks expert advice in order to make fully informed decisions. To ensure the appropriate and adequate discharge of its legislated and fiduciary duties, the Board requests its administrator to enter into contracts on its behalf for both actuarial and investment consulting services.

Administration Report

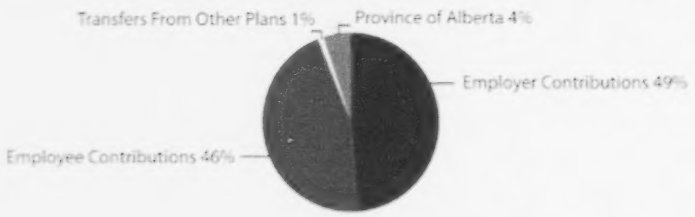
The Special Forces Pension Plan (SFPP) Administration Report is prepared by Alberta Pensions Services Corporation (APS), administrators of SFPP

Alberta Pensions Services Corporation (APS) provides valued pensions services (as directed under a Pension Services Agreement with the Minister of Finance) on behalf of Special Forces Pension Plan (SFPP) members, pensioners, employers and plan governors. Services include:

- Contributions management
- Member, pensioner and employer information management
- Member, pensioner and employer communications
- Benefit calculations
- Benefit disbursements
- Policy development and implementation
- Compliance, regulatory and plan financial reporting

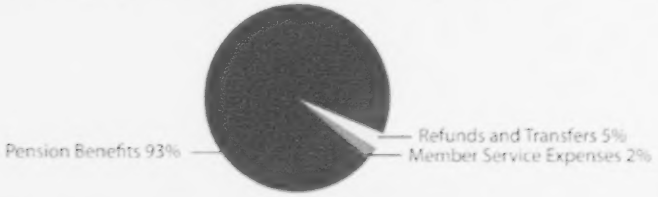
Contributions and transfers to SFPP

In 2011, total contributions and transfers to SFPP were $101 million.



Payments from SFPP

In 2011, total payments from SFPP were $86 million.



SFPP Members, Pensioners and Employers

SFPP has seven employers and a total of 6,433 active and deferred members and pensioners. In 2011, 204 members joined the Plan, 62 members retired, 19 members deferred funds, and 33 members terminated and left the Plan.

SFPP Member Expenses

SFPP's share of APS' operating and plan-specific costs are based on cost allocation policies approved by the Minister of Finance. In 2011, SFPP's share of APS' costs were $1.5 million. Based on average membership, SFPP's service expense per member was $234, which includes APS operating costs and actuarial fees.

	($ thousands)	
Member Service Expenses	2011	2010
General administration costs	$1,341	$1,352
Actuarial fees	165	93
Total member service expenses	1,506	1,445
Member service expenses per member	**$234**	**$232**

Cost-of-Living Adjustment (COLA) to Pensions in Pay

COLA is guaranteed at 60 per cent of the increase in the Alberta Consumer Price Index (ACPI) for all service accrued before January 1, 2001. Effective January 1, 2011, awards of COLA at 30 per cent will be applied to the portion of the Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

Initiatives in 2011

APS launched the following initiatives in 2011 to further enhance services to our valued SFPP clients:

- Performed a thorough review of the Benefit Options Package and processes to better help members understand their options.
- Launched the new SFPP website in April 2011. The website provides visitors with a more engaging online experience. New features include an online host to guide users to specific services, frequently asked questions, instructional video clips, and an advanced search function.
- Continued the promotion of **mypensionplan**. As of December 31, 2011, SFPP had 342 new members registered on **mypensionplan** for a total of 1,002 registrants.
- Provided online registration for members who require one-on-one information sessions.
- Provided members with the option to "Go Green" for their member newsletter. In addition to receiving notification of their member annual statement via e-mail, members can sign up to receive notification of new issues of member newsletters via e-mail.
- Continued to work on three multi-year projects to efficiently and effectively address changes in service demand:
    - Simplifying processes—streamlining processes to add value and clarity for the Corporation and our valued clients, improving the quality and consistency of the pension experience.
    - Simplifying policies—reducing complexity of pension administration policies and looking for opportunities to improve understanding for our members, employers and staff.
    - Simplifying systems—upgrading and unifying the application systems needed to successfully deliver on our mandate to plan boards, members, pensioners and employers.

The Year Ahead

In 2012, APS plans to:

- Continue to work on the three multi-year projects to efficiently and effectively address changes in service demand.
- Review survey feedback to determine what action is required to better support members in transition.
- Continue to utilize new tools such as telephony reporting and call tracking to provide employers with more efficient service delivery.
- Expand our suite of products and services by launching an information video for the Plan website.
- Start the process of building an organizational culture that increases employees' readiness to change and adapt.
- Promote a values-based culture to ensure our behaviours, interactions and decisions are guided by our shared values and in line with achieving our mission.

For further information on SFPP or to access the **mypensionplan** site, please refer to the SFPP website at www.sfpp.ca.

Investment Report

The SFPP Investment Report is prepared by the
Ministry of Finance with input from
Alberta Investment Management Corporation (AIMCo)

2011 year in review

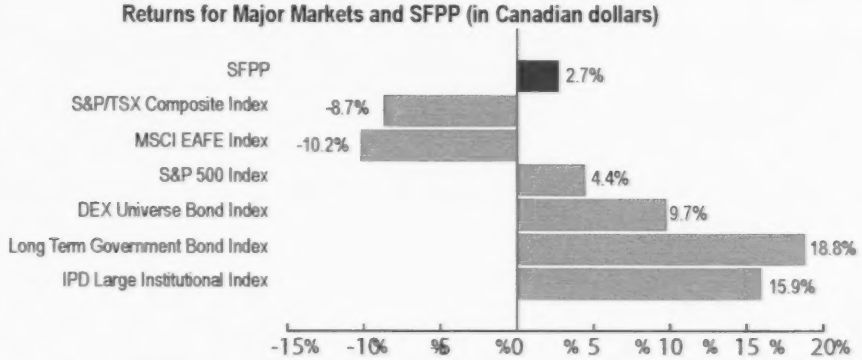
Equity markets finished the first half of 2011 in positive territory. In the U.S., companies churned out healthy profits and stock price-to-earnings ratios dropped to their lowest levels in recent years. Despite these positive stock market fundamentals, investor confidence was shaken and stock markets declined in the third quarter of 2011. Investors were fixated on the overwhelming bad news stemming from the European sovereign debt crisis and downgrades in credit ratings of numerous countries. Even the U.S. credit rating was downgraded amid legislative gridlock over their increasing debt ceiling. In the fourth quarter of 2011, stock markets started to recover.

The Plan recorded a gain of 2.7 per cent (or $46 million) in 2011 compared to 10.2 per cent (or $144 million) in 2010. Most of the Plan's income in 2011 came from its diversified investments in interest-bearing securities and real estate which more than offset losses from investments in equities.

At December 31, 2011, 55.5 per cent of the Plan's assets were invested in equities, followed by 27.9 per cent in interest-bearing securities, like bonds and private mortgages, and 16.6 per cent in inflation-sensitive and alternative investments such as real estate, infrastructure, real return bonds and timberland.

The following chart summarizes the market returns from various indexes around the world and the return of SFPP.

Returns for Major Markets and SFPP (in Canadian dollars)



In the bond market, the DEX Universe Bond Index posted a gain of 9.7 per cent in 2011 compared to 6.7 per cent in 2010. The DEX Long Term Government Bond Index gained 18.8 per cent in 2011 compared to 12.1 per cent in 2010.

The Canadian real estate market, represented by the IPD Large Institutional Index gained 15.9 per cent in 2011 compared to 11.2 per cent in 2010.

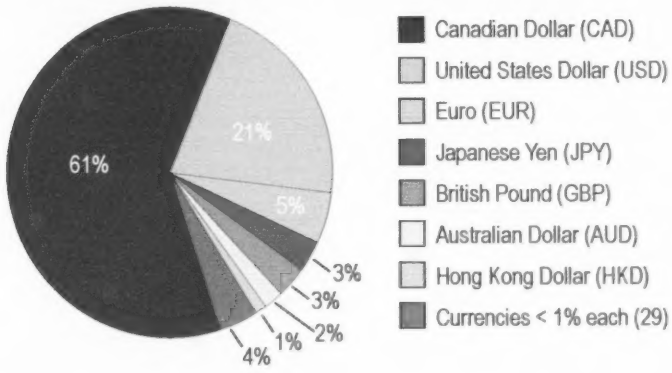
In the Canadian stock market, the Standard & Poor's Toronto Stock Exchange (S&P/TSX) Composite Index decreased by 8.7 per cent in 2011 compared to an increase of 17.6 per cent in 2010.

In the United States equity market, the S&P 500 Index, which tracks the performance of the top 500 American companies, increased by 4.4 per cent in Canadian dollars (2.1 percent in U.S. dollars) compared to 9.4 per cent in Canadian dollars (15.1 per cent in U.S. dollars) in 2010.

In equity markets outside of North America, the Morgan Stanley Capital International Index for Europe, Australasia, and the Far East (MSCI EAFE) Index decreased by 10.2 per cent in Canadian dollars compared to a gain of 2.4 per cent in Canadian dollars in 2010.

At December 31, 2011, 61 per cent of the Plan's investments were denominated in Canadian currency, followed by 21 per cent in U.S. currency and 18 per cent in currencies outside North America. The value of the Plan's foreign investment portfolio is exposed to foreign currency risk (i.e. potential loss) when the value of the Canadian dollar strengthens against other currencies. By year-end, the Canadian dollar was slightly weaker against the U.S. dollar, meaning U.S. dollar investments were worth more when translated into Canadian dollars. At December 31, 2011, one U.S. dollar was worth $1.02 Canadian compared to 99 cents Canadian at the beginning of the year.

SFPP Investments by Currency



statement of investment policies and goals (*sip&g*)

Plan assets are invested for the benefit of the Plan's beneficiaries in accordance with the Board's *SIP&G*. The *SIP&G* is reviewed and updated annually by the Board. It sets out the governing investment principles and guidelines, giving particular consideration to the Plan's provisions, characteristics and financial obligations and the Board's capital market expectations. It also defines the management structure and monitoring procedures.

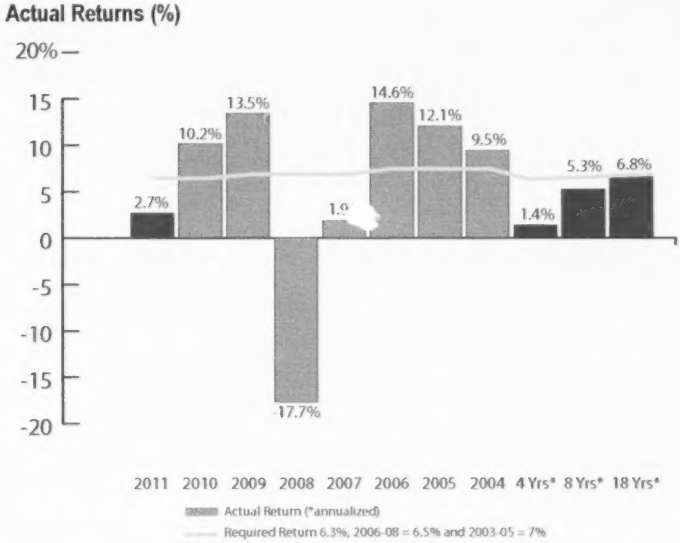
investment management services

Alberta Investment Management Corporation (AIMCo) is a provincial corporation of Alberta Finance. AIMCo was created on January 1, 2008. It manages and invests the assets of the Plan on behalf of the Minister and the Board. AIMCo invests SFPP's assets for the benefit of its members, subject to legislation and the investment policies approved by the Board. AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, in order to achieve greater diversification, access external expertise and specialized knowledge, and reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

long-term investment objective (funding)

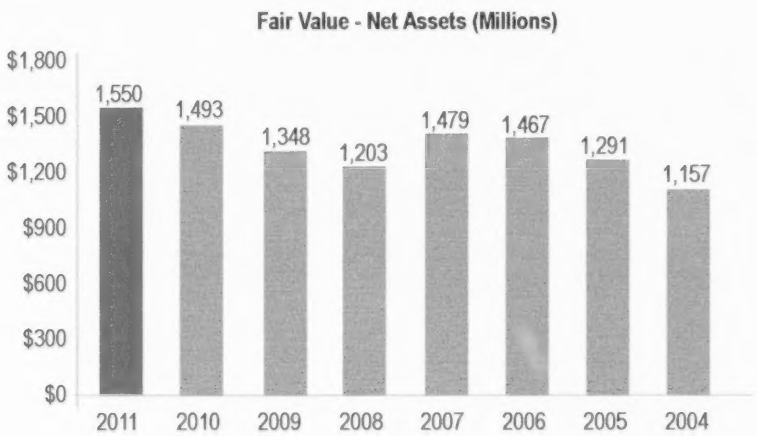
The required long-term average annual return from the Plan's investments is 6.3 per cent. This includes an expectation of earning 4.0 per cent above the forecast annual rate of inflation currently assumed to be 2.3 per cent.

The chart below compares SFPP's overall investment returns over one year, four years, eight years and eighteen years against the long-term investment return of 6.3 per cent. In five of the last eight years, the Plan's annual return exceeded the required long-term expected investment return. Over eight years, the Plan's annualized return of 5.3 per cent was less than the long-term expected return of 6.3 per cent by 1.0 per cent. Over eighteen years, the Plan's annualized return of 6.8 per cent was greater than the Plan's expected long-term return of 6.3 per cent by 0.5 per cent.



fair value of plan's net assets

At December 31, 2011, the fair value of the Plan's net assets increased to $1.550 billion, up $57 million, from $1.493 billion at the end of the previous year after taking into account the investment income of $46 million and the excess contributions received from employees and employers over pension benefits paid of $11 million.



board activities

The Board has put in place a number of measures to ensure proper governance of the Plan's investments. Along with reviewing the *SIP&G* annually, the Board evaluates the investment management structure and monitors the performance of the investment portfolio and compliance with policies quarterly. Board members seek to expand their knowledge of investment issues and trends through attendance at seminars, presentations from advisors, and reviewing published industry research.

The Board monitors the services provided to the Plan by AIMCo. Services provided and charges for those services, including performance standards, are set out in the *Investment Management Agreement* between AIMCo and the Board.

The Board conducts detailed asset-liability modeling studies to identify the best asset mix for the Plan taking into account the nature of the Plan's benefit structure, financial assets, and the most up-to-date expectations for the financial markets. The Board then reviews the fund objectives, taking into consideration the studies' recommendations, and will make any appropriate changes to the *SIP&G*.

asset mix

For 2011, the Board has given AIMCo the following broad ranges within each asset class to invest the Plan's assets:

Equities	38 to 78 per cent
Fixed income	18 to 38 per cent
Money market	0 to 10 per cent
Inflation sensitive	4 to 30 per cent

Equities include ownership in both publicly traded and private enterprises in Canada and outside Canada, that provides long-term growth to meet the funding requirements of the Plan's pension obligation. Bonds and mortgages include publicly traded or privately issued fixed-income securities which have a high correlation to the interest rate risk of the Plan's pension obligation. Cash and short-term securities include investments that have a low absolute volatility with cash benchmarks. Inflation-sensitive investments include any publicly traded or privately held investment that provides inflation-based returns that are positively correlated with the inflation risk of the Plan's liability including, but not exclusive to, investments in real estate, infrastructure, real return bonds and timberland.

The table below shows the policy asset mix benchmark and range for each class of investments held in the Plan compared to the actual asset mix for 2011 and the previous year.

Asset Class	Policy Benchmark	Policy Range		Actual	
		Minimum	Maximum	2011	2010
	%	%	%	%	%
Money Market	1.0	0.0	10.0	1.0	1.1
Fixed income	26.0	18.0	38.0	26.9	26.1
Universe bonds		8.0	10.0	8.5	8.6
Long government bonds		10.0	20.0	14.7	13.4
Private mortgages		0.0	5.0	3.7	4.1
Equities	57.0	38.0	78.0	55.5	57.6
Canadian		12.0	22.0	17.6	18.2
Global		26.0	46.0	30.3	32.7
Emerging markets		0.0	5.0	4.2	3.7
Private equities		0.0	8.0	3.4	3.0
Inflation sensitive	16.0	4.0	30.0	16.6	15.2
Real return bonds		0.0	7.0	3.0	5.5
Real estate		4.0	10.0	6.8	5.7
Infrastructure		0.0	8.0	5.2	3.4
Timberland		0.0	5.0	1.6	0.6
Grand Total	100.0			100.0	100.0

sfpp investment results in relation to the benchmarks

To evaluate performance and measure the value added by the investment managers from their active investment decisions, such as security selection, the actual investment results are compared to the investment policy benchmark. The benchmark return represents what could reasonably be earned without active management if invested in the market indices in proportion to the policy asset mix approved by the Board. Investment managers strive to earn more than market returns by over or underweighting specific investments in relation to the indices. The Plan's investment policy benchmark is based on the long-term asset mix weightings of the portfolio invested in the following indices: *DEX 91-Day T-Bill Index, DEX Universe Bond Index, DEX Long Term All Government Bond Index, DEX Real Return Bond Index, S&P/ TSX Composite Index, MSCI All Country World Index, IPD Large Institutional All Property Index.*

The performance of AIMCo is reviewed against the policy benchmark to measure the effectiveness of its decisions. Performance is reviewed quarterly, with an emphasis on four-year returns. According to the Plan's *SIP&G*, the Board expects that the investments held by the Plan will return approximately 100 basis points, or 1.0 per cent per annum, above the policy benchmark return over the long-term.

Over four years, the Plan's investments gained 1.4 per cent per annum, 1.0 per cent less than the policy benchmark return of 2.4 per cent. Over an eight-year period, the Plan returned 5.3 per cent per year, 0.2 per cent less than the policy benchmark return of 5.5 per cent. Over eighteen years, the Plan earned 6.8 per cent per year, the same as the policy benchmark return of 6.8 per cent.

INVESTMENT RETURNS (%) Ending December 31, 2011	Annual Returns (%)				Annualized Returns (%)		
	2011	2010	2009	2008	4 Years	8 Years	18 Years
Actual return	2.7	10.2	13.5	(17.7)	1.4	5.3	6.8
Policy benchmark return	2.2	10.5	13.5	(14.3)	2.4	5.5	6.8
Value added (lost) by investment manager	0.5	(0.3)	0.0	(3.4)	(1.0)	(0.2)	0.0

The table below compares the actual returns from the Plan's investments against the benchmark index returns.

Table of Investment Returns[1]	Annual Returns				Annualized Returns	
	2011 %	2010 % restated (2)	2009 %	2008 %	4 yr %	8 yr %
OVERALL ACTUAL RETURN	**2.7**	**10.2**	**13.5**	**(17.7)**	**1.4**	**5.3**
Policy Return (3)	*2.2*	*10.5*	*13.5*	*(14.3)*	*2.4*	*5.5*
Consumer Price Index (4)	*2.9*	*2.0*	*1.0*	*2.0*	*2.0*	*2.0*
Money market						
Short-term Fixed Income	**1.2**	**1.0**	**1.6**	**4.1**	**2.0**	**3.2**
DEX 91-Day T-Bill Index	*1.0*	*0.5*	*0.6*	*3.3*	*1.4*	*2.3*
Fixed Income						
Public Bonds	**8.5**	**9.4**	**7.8**	**(2.3)**	**5.8**	**5.5**
Private Mortgages (1)	**10.9**	**10.1**	**3.6**	**8.1**	**8.1**	**7.3**
Public Bonds and Mortgages	**9.3**	**9.7**	**6.4**	**0.4**	**6.4**	**5.9**
DEX Universe Bond Index	*9.7*	*6.7*	*5.4*	*6.4*	*7.0*	*6.2*
Long-term Government Bonds	**17.1**	**12.9**	**6.1**	**(0.8)**	**8.6**	**n/a**
DEX Long-term All Government Bond Index	*18.8*	*12.1*	*1.2*	*6.2*	*9.4*	*n/a*
Equities						
Canadian Equities	**(7.9)**	**18.6**	**36.8**	**(34.9)**	**(0.7)**	**7.7**
S&P/TSX Composite Index (5)	*(8.7)*	*17.6*	*36.8*	*(34.5)*	*(1.0)*	*7.1*
Foreign Equities	**(4.4)**	**6.8**	**15.3**	**(30.6)**	**(4.9)**	**0.9**
MSCI All Country World Index (6)	*(5.3)*	*7.1*	*11.9*	*(25.6)*	*(4.1)*	*0.9*
Private Equities (1) (2)	**3.3**	**6.9**	**(3.3)**	**(7.2)**	**(0.2)**	**n/a**
MSCI All Country World Index (7)	*(5.3)*	*7.1*	*15.9*	*10.0*	*6.6*	*n/a*
Inflation Sensitive						
Real Estate (1)	**20.5**	**12.1**	**(7.3)**	**5.4**	**7.2**	**13.6**
IPD Large Institutional Index	*15.9*	*11.2*	*(0.1)*	*3.1*	*7.2*	*11.8*
Real Return Bonds	**18.1**	**11.0**	**13.4**	**1.0**	**10.7**	**7.0**
Combined Benchmark (8) (11)	*9.6*	*11.1*	*14.5*	*0.4*	*8.8*	*8.1*
Infrastructure (1) (2)	**5.3**	**5.0**	**3.3**	**10.0**	**5.8**	**9.9**
Combined Benchmark (9) (11)	*9.6*	*11.1*	*11.7*	*8.0*	*10.1*	*9.1*
Timberland (1) (2)	**16.9**	**7.2**	**(7.3)**	**(8.7)**	**1.5**	**n/a**
Combined Benchmark (10) (11)	*9.6*	*11.1*	*10.6*	*6.0*	*9.3*	*n/a*

(1) Investment returns are provided by AIMCo. Investment returns for assets classified as Level 3 in the financial statements are based on estimates of fair value. Level 3 includes real estate, private equities, infrastructure, timberland, hedge funds and private debt. For these investments measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns and valuations, resulting from new information received after the cut-off date for preparation of the Plan's financial statements, will be reflected in the next reporting period.

(2) Sector returns in 2010 were restated as a result of subsequent revisions to last year's reported amounts. In 2010, the return for private equities increased from 4.9 per cent to 6.9 per cent, the infrastructure returns decreased from 7.4 per cent to 5.0 per cent, timberland returns decreased from 8.0 per cent to 7.2 per cent. In addition, the real estate benchmark in 2010 decreased from 11.6 per cent to 11.2 per cent. There was no changes to the overall return reported for 2010.

(3) The policy benchmark is a product of the weighted average policy sector weights and sector returns.

(4) The Consumer Price Index (CPI) on a one month time lag.

(5) Prior to July 1, 2009, the combined S&P/TSX Capped Composite Index and BMO Small Cap Index.

(6) Prior to July 1, 2009, the combined S&P 500 Index, MSCI EAFE Index and Russell 2500 Index.

(7) Prior to June 1, 2011, the DEX Real Return Bond Index. Prior to July 1, 2009, the benchmark was the CPI plus 8 per cent.

(8) Prior to June 1, 2011, the DEX Real Return Bond Index.

(9) Prior to June 1, 2011, the DEX Real Return Bond Index. Prior to July 1, 2009, the benchmark was the CPI plus 6 per cent.

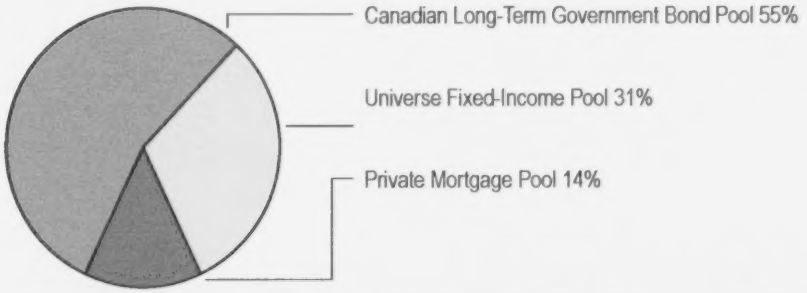
(10) Prior to June 1, 2011, the DEX Real Return Bond Index. Prior to July 1, 2009, the benchmark was the CPI plus 4 per cent.

(11) Effective June 1, 2011, the combined benchmark for real return bonds, infrastructure and timberland is a combination of the DEX Universe Bond Index, DEX Long Term Government Bond Index, DEX Real Return Bond Index, S&P/TSX Composite Index and MSCI ACWI Index.

money market and fixed-income securities

At December 31, 2011, money market and fixed-income securities totaled 27.9 per cent or $430 million, up from 27.2 per cent or $404 million at the end of the previous year. Money market securities made up 1.0 per cent of the total investment portfolio while fixed income securities comprised 26.9 per cent. The Plan's investment in fixed-income securities consisted of investments in AIMCo's Canadian Long-Term Government Bond Pool, Universe Fixed-Income Pool and Private Mortgage Pool.

Summary of Fixed-Income Holdings (by pooled fund)



Pooled Fund Investments (by Issuer) compared to Benchmark Index (in per cent) Issuer	Canadian Long-term Government Bond Pool	*Benchmark DEX LT All Government Bond Index*	Private Mortgage Pool	Universe Fixed Income Pool	*Benchmark DEX Universe Bond Index*
Federal	**7**	*37*	-	**9**	*44*
Provincial	**74**	*61*	-	**25**	*28*
Municipal	**5**	*2*	-	**1**	*2*
Corporate	**14**	-	-	**49**	*26*
Private debt and mortgages	-	-	**98**	**10**	-
Under 1 year	-	-	**2**	**6**	-
	100	*100*	**100**	**100**	*100*

The actual return from the Plan's money market investments in cash and short-term securities was 1.2 per cent in 2011, 0.2 per cent better than the benchmark return of 1.0 per cent.

Short-Term Fixed Income	Actual Return %	Benchmark Index* %	Net Value Added from Active Management %
One Year	1.2	1.0	0.2
Four Years (annualized)	2.0	1.4	0.6

*DEX 91-Day T-Bill Index

In 2011 the actual gain from the Plan's investment in AIMCo's Canadian Long-Term Government Bond Pool (Public Long Bonds) was 17.1 per cent, 1.7 per cent less than the benchmark gain of 18.8 per cent.

Public Long Bonds	Actual Return %	Benchmark Index* %	Net Value Lost from Active Management %
One Year	17.1	18.8	(1.7)
Four Years (annualized)	8.6	9.4	(0.8)

*DEX Long-term All Government Bond Index

The combined actual gain from the Plan's investments in AIMCo's Universe Fixed Income Pool (Public Bonds) and Private Mortgage Pool was 9.3 per cent in 2011, 0.4 per cent less than the benchmark of 9.7 per cent.

Public Bonds and Private Mortgages	Actual Return %	Benchmark Index* %	Net Value Lost from Active Management %
One Year	9.3	9.7	(0.4)
Four Years (annualized)	6.4	7.0	(0.6)

*DEX Universe Bond Index

equities

canadian public equity investments

At December 31, 2011, Canadian public equities represented 17.6 per cent of SFPP's total investments or $272 million compared to 18.2 per cent or $271 million at the end of the previous year. Most of the Canadian equity portfolio is held in AIMCo's Canadian Equities Master Pool. The Pool includes directly held investments in Canadian public companies and structured equity products which replicate Canadian public equity investments using index swaps and futures contracts linked to the Standard & Poor's Toronto Stock Exchange (S&P/TSX). Directly held interest-bearing securities support the notional value of index swaps and futures contracts.

Canadian Equities Master Pool Industry Exposure Relative to Benchmark December 31, 2011 Sector	Benchmark TSX Composite Index %	Over (Under) Benchmark %
Consumer discretionary	4.0	1.0
Consumer staples	3.0	3.0
Energy	27.0	(2.0)
Financials	30.0	1.0
Health care	1.0	-
Industrials	6.0	1.0
Information technology	1.0	-
Materials	21.0	-
Telecommunications	5.0	1.0
Utilities	2.0	1.0
	100.0	

The actual loss from Canadian equity investments over the year was 7.9 per cent, 0.8 per cent better than the benchmark loss of 8.7 per cent.

Canadian Equities	Actual Return %	Benchmark Index* %	Net Value Added from Active Management %
One Year	(7.9)	(8.7)	0.8
Four Years (annualized)	(0.7)	(1.0)	0.3

*S&P/TSX Composite Index. Prior to July 1, 2009, S&P/TSX Capped Composite Index and BMO Small Cap Index.

foreign equities

At December 31, 2011, foreign equities comprised 34.5 per cent of total SFPP investments or $533 million, down from 36.4 per cent or $542 million at the end of the previous year. Most of the Plan's foreign public equities portfolio is included in AIMCo's Global Equities Master Pool (78 per cent) followed by investments in the Portable Alpha U.S. Pool (8 per cent) and the Emerging Markets Equity Pool (12 per cent) and other equity allocations (2 per cent).

The Plan's actual loss from foreign equity investments in 2011 was 4.4 per cent, 0.9 per cent less than the benchmark loss of 5.3 per cent in Canadian dollars.

Foreign Equities	Actual Return %	Benchmark Index* %	Net Value Added (Lost) from Active Management %
One Year	(4.4)	(5.3)	0.9
Four Years (annualized)	(4.9)	(4.1)	(0.8)

*MSCI All Country World Index (ACWI). Prior to July 1, 2009, combined S&P500, Russell 2500 and MSCI EAFE Indices.

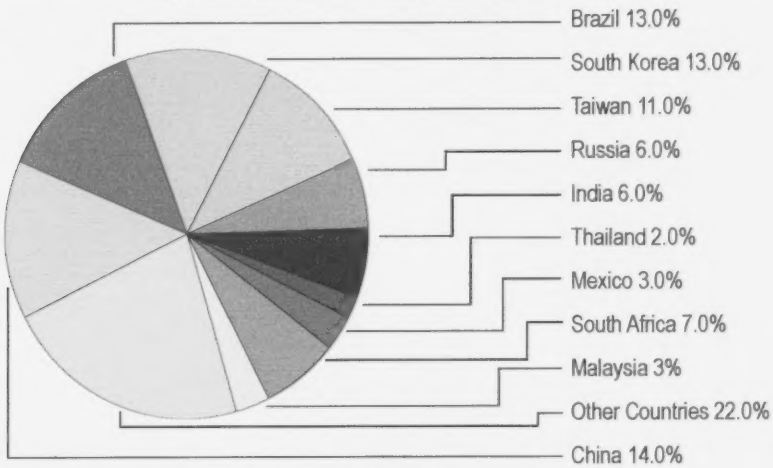
The Global Equities Master Pool includes exposure to publicly traded securities in the U.S., Europe, Australasia and the Far East (EAFE), Emerging Markets and Canada. The global portfolio is managed using directly held securities and structured equity index swaps and futures contracts. The Portable Alpha U.S. Pool provides value-added exposure to hedge funds. In 2011, the global equities component of foreign equities lost 2.3 per cent.

Global Equities Master Pool Industry Exposure Relative to Benchmark December 31, 2011 Sector	Benchmark MSCI World Total Return Index %	Over (Under) Benchmark %
Consumer discretionary	10.0	(1.0)
Consumer staples	11.0	6.0
Energy	12.0	(2.0)
Financials	18.0	(4.0)
Health care	11.0	-
Industrials	11.0	5.0
Information technology	12.0	1.0
Materials	7.0	(2.0)
Telecommunications	4.0	(1.0)
Utilities	4.0	(2.0)
	100.0	

Global Equities Master Pool Relative Regional Exposure to Benchmark December 31, 2011 Region	Benchmark MSCI World Total Return Index %	Over (Under) Benchmark %
United States	53.0	(3.0)
Europe, Australasia & the Far East	42.0	4.0
Emerging markets	-	(1.0)
Canada	5.0	-
	100.0	

The Emerging Market Equity Pool is actively managed and includes securities in economies which are in the early stages of development and whose market has sufficient size and liquidity and is receptive to foreign investment. Major emerging markets include countries like China, Brazil, Korea, Taiwan, Russia and India. The Plan's emerging markets component of foreign equities lost 18.7 per cent in 2011.

Top Ten Countries in Emerging Markets Pool



global private equities

At December 31, 2011, the Plan's investment in AIMCo's global private equity pools comprised 3.4 per cent of the Plan's total investment portfolio, or $52 million, up from 3.0 per cent or $45 million the previous year. The portfolio includes investments in institutionally-sponsored international private equity pools managed by experienced external investment advisors with proven track records. Private equities gained 3.3 per cent in 2011, 8.6 per cent better than the market-based publicly traded benchmark loss of 5.3 per cent.

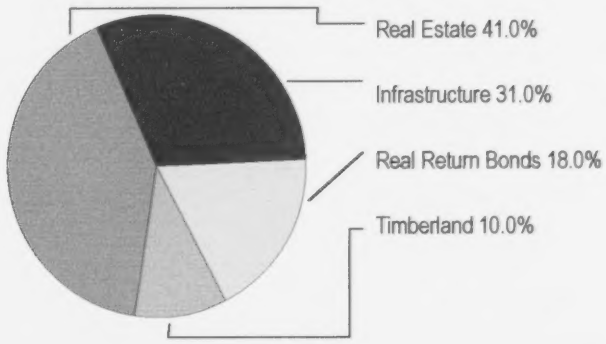
Private Equities	Actual Return %	Benchmark Index* %	Net Value Added (Lost) from Active Management %
One Year	3.3	(5.3)	8.6
Four Years (annualized)	(0.2)	6.6	(6.8)

*MSCI All Country World Index (ACWI). Prior to July 1, 2009, CPI plus 8%.

inflation-sensitive investments

At December 31, 2011, the Plan's inflation sensitive portfolio comprised 16.6 per cent of total investments or $256 million up from 15.2 per cent or $227 million the previous year. The inflation sensitive portfolio consists of real estate, real return bonds, infrastructure and timberland.

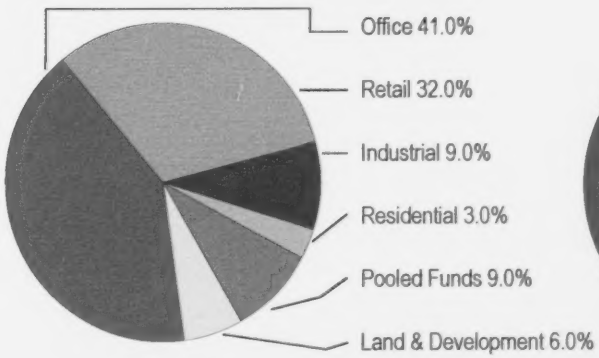
Inflation Sensitive Investments



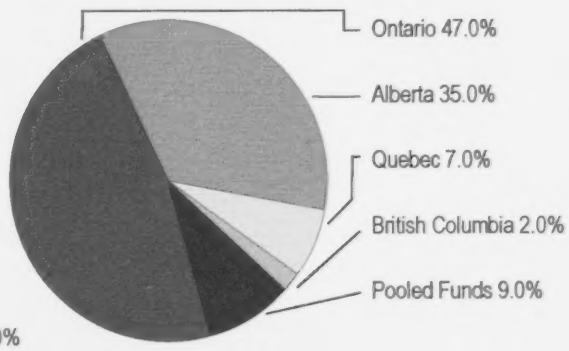
real estate

At December 31, 2011, the Plan's Canadian and foreign real estate portfolio comprised 6.8 per cent or $105 million of the Plan's total investment portfolio up from 5.7 per cent or $85 million the previous year. Most of the Plan's real estate investment is held in AIMCo's Canadian Private Real Estate Pool (92 per cent) with 8 per cent held in the Foreign Private Real Estate Pool. Investments in the Canadian Private Real Estate Pool are primarily a mix of office, retail, industrial and residential properties in major Canadian urban areas including Toronto, Ottawa, Montreal, Calgary, Edmonton, and Vancouver. The focus is on quality properties, featuring strong locations and tenants.

Canadian Private Real Estate Pool (by Sector)



Canadian Private Real Estate Pool (by Province)



Top Five Holdings in Canadian Private Real Estate Pool as at December 31, 2011

Property	Location	Sector
Yorkdale Shopping Centre	Toronto, Ontario	Retail
Square One Shopping Centre	Mississauga, Ontario	Retail
Place Ville Marie	Montreal, Quebec	Office
Scarborough Town Centre	Toronto, Ontario	Retail
Bow Valley Square	Calgary, Alberta	Office

The Plan's actual gain from real estate investments in 2011 was 20.5 per cent, 4.6 per cent more than the benchmark gain of 15.9 per cent.

Real Estate	Actual Return %	Benchmark Index* %	Net Value Lost from Active Management %
One Year	20.5	15.9	4.6
Four Years (annualized)	7.2	7.2	0.0

*IPD Large Institutional Index.

real return bonds

At December 31, 2011, real return bonds comprised $46 million or 3.0 per cent of the Plan's total investment portfolio compared to $82 million or 5.5 per cent the previous year. The Plan's investment is held in AIMCo's Real Return Bond Pool. The Pool includes inflation-linked fixed income instruments designed to generate a specified real rate of return (return achieved after adjustments for inflation).

In 2011, real rate of return bonds gained 18.1 per cent, 8.5 per cent better than the policy benchmark gain of 9.6 per cent.

Real Return Bonds	Actual Return %	Benchmark Index* %	Net Value Added from Active Management %
One Year	18.1	9.6	8.5
Four Years (annualized)	10.7	8.8	1.9

*Combined benchmark: DEX Universe Bond Index, DEX Long Term Government Bond Index, DEX Real Return Bond Index, S&P/TSX Composite Index and MSCI ACWI Index. Prior to June 1, 2011, the DEX Real Return Bond Index.

infrastructure

At December 31, 2011, infrastructure investments comprised 5.2 per cent of the Plan's total investment portfolio or $80 million up from 3.4 per cent or $51 million the previous year. The Plan's infrastructure investments are held in AIMCo's private income pools which include investment projects that provide attractive returns plus inflation sensitivity with a long investment horizon. In 2011, infrastructure investments returned 5.3 per cent, 4.3 per cent less than the benchmark gain of 9.6 per cent.

Infrastructure	Actual Return %	Benchmark Index* %	Net Value Lost from Active Management %
One Year	5.3	9.6	(4.3)
Four Years (annualized)	5.8	10.1	(4.3)

*Combined benchmark: DEX Universe Bond Index, DEX Long Term Government Bond Index, DEX Real Return Bond Index, S&P/TSX Composite Index and MSCI ACWI Index. Prior to June 1, 2011, the DEX Real Return Bond Index. Prior to July 1, 2009, CPI plus 6%.

timberland

At December 31, 2011, timberland investments comprised 1.6 per cent of the Plan's total investment portfolio or $25 million compared to 0.6 per cent or $9 million the previous year. The Plan's investment in timberland is held through AIMCo's Timberland Pool. Timberland investments are held in Canada and globally, including an ownership interest in timber and related land in the Province of British Columbia, and forestry and agriculture land in Australia. In 2011, timberland investments gained 16.9 per cent, 7.3 per cent better than the benchmark gain of 9.6 per cent.

Timberland Investments	Actual Return %	Benchmark Index* %	Net Value Added (Lost) from Active Management %
One Year	16.9	9.6	7.3
Four Years (annualized)	1.5	9.3	(7.8)

*Combined benchmark: DEX Universe Bond Index, DEX Long Term Government Bond Index, DEX Real Return Bond Index, S&P/TSX Composite Index and MSCI ACWI Index. Prior to June 1, 2011, the DEX Real Return Bond Index. Prior to July 1, 2009, CPI plus 4%.

risk management system

The Board accepts that in order to meet the return objectives of the Plan, the Board must take on risk in the assets in which it invests. The Plan invests in a diverse set of asset types to help improve the likelihood of achieving its desired results for a given level of risk.

Investment risk management is a central thesis for our investment manager, AIMCo. AIMCo seeks to measure and monitor both historic and possible future risks, allocating risk as a scarce resource to the most promising investment opportunities. AIMCo maintains a quantitative investment risk system designed to operate across all asset classes and a variety of risk types such as market risk, currency risk, and concentration risk.

As the ultimate risk to a pension plan is not being able to meet pension obligations, the Board monitors the risk of the Plan's liabilities in relation to the investment assets. AIMCo will model the risk of both assets and theoretical liabilities and report to the Board on a quarterly basis.

proxy voting

The Board considers proxy voting to be a key element of responsible investing and that thoughtful voting is a contributor to optimizing the long term value of investments. The Plan entrusts the proxy voting function to AIMCo, our primary service provider. Research and proxy voting have been outsourced by AIMCo to an independent adviser that specializes in providing proxy-related services to institutional investors. While AIMCo may review and utilize the recommendations of the research provider in making proxy voting decisions, they are in no way obligated to follow such recommendations.

Financial Statements

The SFPP Financial Statements are prepared by
the Ministry of Finance

SPECIAL FORCES PENSION PLAN
Financial Statements
Year Ended December 31, 2011

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Independent Auditor's Report

To the President of Treasury Board and Minister of Finance, and the Special Forces Pension Board

Report on the Financial Statements

I have audited the accompanying financial statements of the Special Forces Pension Plan, which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of changes in net assets available for benefits and changes in pension obligation for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Special Forces Pension Plan as at December 31, 2011 and 2010, and changes in net assets available for benefits and changes in pension obligation for the years then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by]

Auditor General
April 25, 2012
Edmonton, Alberta

Statements of Financial Position

As at December 31, 2011

	($ thousands) 2011	2010
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 1,543,615	$ 1,488,917
Contributions receivable		
Employers	2,364	2,163
Employees	2,204	2,015
Province of Alberta	414	465
Accrued investment income and accounts receivable	1,387	18
Total Assets	1,549,984	1,493,578
Liabilities		
Accounts payable	84	126
Liability for investment purchases	168	90
Total Liabilities	252	216
Net assets available for benefits	$ 1,549,732	$ 1,493,362
Pension obligation and deficit		
Pension obligation (Note 5)		
Plan Fund	$ 2,124,216	$ 2,044,927
Indexing Fund	34,788	29,132
	2,159,004	2,074,059
Deficit (Note 6)	(609,272)	(580,697)
Pension obligation and deficit	$ 1,549,732	$ 1,493,362

The accompanying notes are part of these financial statements.

Statements of Changes in Net Assets Available for Benefits

Year ended December 31, 2011

($ thousands)

	2011			2010
	Plan Fund	Indexing Fund	Total	Total
Increase in assets				
Contributions (Note 7)	$ 96,078	$ 5,127	$ 101,205	$ 87,640
Investment income (Note 8)	45,159	904	46,063	143,783
COLA transfer increase (decrease) (Note 15)	300	(300)	-	-
	141,537	5,731	147,268	231,423
Decrease in assets				
Benefit payments (Note 10)	84,274	-	84,274	79,416
Transfers to other plans	-	-	-	2
Investment expenses (Note 11)	5,043	75	5,118	4,879
Administrative expenses (Note 12)	1,506		1,506	1,445
	90,823	75	90,898	85,742
Increase in net assets	50,714	5,656	56,370	145,681
Net assets available for benefits at beginning of year	1,464,230	29,132	1,493,362	1,347,681
Net assets available for benefits at end of year	$ 1,514,944	$ 34,788	$ 1,549,732	$ 1,493,362

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended December 31, 2011

($ thousands)

	2011			2010
	Pre-1992	Post-1991	Total	Total
Increase in pension obligation				
Interest accrued on opening pension obligation	$ 51,531	$ 75,356	$ 126,887	$ 119,196
Benefits earned	-	70,374	70,374	53,065
Cost-of-living indexing adjustments and interest	(962)	5,348	4,386	40,590
	50,569	151,078	201,647	212,851
Decrease in pension obligation				
Benefits, transfers and interest	56,528	29,766	86,294	81,503
Net decrease (increase) due to actuarial assumptions changes (Note 5a)	9,138	21,270	30,408	(220,103)
	65,666	51,036	116,702	(138,600)
Net increase in pension obligation	(15,097)	100,042	84,945	351,451
Pension obligation at beginning of year	844,775	1,229,284	2,074,059	1,722,608
Pension obligation at end of year (Note 5)	$ 829,678	$ 1,329,326	$ 2,159,004	$ 2,074,059

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2011

(All dollar amounts in thousands, except per member data and remuneration of board members)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and *Special Forces Pension Plan* Alberta Regulation 369/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for police officers employed by participating employers in Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0584375. The Minister of Alberta Finance is the legal trustee for the Plan and Alberta Finance is management of the Plan. The Plan is governed by the Special Forces Pension Board (the Board).

b) PLAN FUNDING

Plan Fund

Contributions and investment earnings are expected to fund all benefits payable under the Plan from the Plan Fund. The Board, in consultation with the Plan's actuary, reviews the contribution rates at least once every three years. The last actuarial valuation for funding purposes was prepared as at December 31, 2008.

The unfunded liability for service prior to December 31, 1991 is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2011 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Employees and employers are responsible for fully funding service after 1991. The current service contribution rates for employers are 1.1% higher than the rates of employees. The contribution rates in effect at December 31, 2011 for current service and post-1991 actuarial deficiency were 13.05% of pensionable salary for employers and 11.95% for employees. Of this, contribution rates towards current service were 9.69% of pensionable salary for employers and 8.59% for employees. Contributions towards the post-1991 actuarial deficiency were 3.36% of pensionable salary each for both employers and employees.

The total contribution rates in effect at December 31, 2011 were 14.55% of pensionable salary for employers and 13.45% for employees and includes contributions towards COLA of 0.75% each (refer to the Indexing Fund in note 1b) and the pre-1992 unfunded liability of 0.75% each.

Indexing Fund

Benefit payment increases for post-1991 COLA (see Note 1i) are funded by contributions to another fund called the Indexing Fund from employers and employees and earnings from

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

investments. The rates in effect at December 31, 2011 were 0.75% of pensionable salary each for employers and employees. COLA rates and benefits are set by the Board. Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

c) RETIREMENT BENEFITS

The Plan provides for a lifetime pension of 1.4% for each year of pensionable service based on the average salary of the five highest consecutive years, subject to the maximum benefit limit allowed under the *Income Tax Act*. An additional temporary bridge benefit of 0.6% for each year of pensionable service is paid to age 65 based on the average of the year's maximum pensionable earnings (as defined by the Canada Pension Plan) over the same period used to determine the highest average salary. The maximum service allowable under the Plan is 35 years.

For a member who has a pension partner at retirement, the pension plan provides that the pension will continue in the amount of 65% to the surviving pension partner for their remaining lifetime. For a member who does not have a pension partner at retirement, the pension is payable for the member's lifetime with a guarantee that the pension payment will not cease until a minimum of 60 monthly payments have been made

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service. Individuals who became members after June 30, 2007 and had no pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension, or a lump sum payment. If the member has less than five years of service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment, and with respect to pre-1992 service there are additional benefits for dependent minor children.

f) TERMINATION BENEFITS, REFUNDS AND TRANSFERS

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of their contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest. The refunds are accounted for as refunds and transfers on the Statement of Changes in Net Assets Available for Benefits.

g) GUARANTEE

As long as there remains an unfunded liability for pre-1992 service, payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta. (Section 9.1(c) of the Act Schedule 4).

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

h) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of commuted value for all service, or all contributions made by the member to the Plan.

i) COST-OF-LIVING ADJUSTMENTS (COLA)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

For post-1991 service, the Board is responsible for setting COLA based on funds available in the Indexing Fund (see Note 15). COLA at 60% has been granted on service up to December 31, 2000. Effective January 1, 2012, COLA at 30% (January 2011:30%) of the Alberta Consumer Price Index will be applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

The Accounting Standards Board (AcSB) issued revised Canadian accounting standards for pension plans. The Plan adopted the new standards under CICA Section 4600 on January 1, 2011 on a retrospective basis. There is no impact on the net assets available for benefits, the pension obligation, or plan deficits with the implementation of this new section. Additional disclosures have been made to derivative financial instruments (Note 3l) and investment risk management (Note 4) in accordance with IFRS 7, Financial Instruments, and to contributions (Note 7) and benefit payments (Note 10).

The Plan invests in units of pooled investment funds established and administered by Alberta Investment Management Corporation (AIMCo). Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units. Pooled investment funds include financial instruments (including derivatives), investment receivables and liabilities, and cash.

b) VALUATION OF INVESTMENTS

Investments in units of pooled investment funds are recorded in the financial statements at fair value. The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations provided by AIMCo at the close of the 6th business day following the year end. Differences in valuation estimates provided to Alberta Finance after the year end cut-off date are reviewed by management. Differences

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

considered immaterial by management are included in investment income in the following year.

The fair value of the units is based on the fair value of the underlying investments in the pooled investment funds. Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The methods used by AIMCo to determine the fair value of investments held by pooled investment funds is explained in the following paragraphs:

i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or average of the latest bid and ask prices quoted by an independent securities valuation company.

ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of private equity and infrastructure investments is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.

iv) The fair value of real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

vi) The fair value of timberland investments is appraised annually by independent third party valuators.

For private investments, absolute return strategies and timberland investments, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

Investment income and expenses are recognized on the accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on all investments, including those from derivative contracts, are recognized concurrently with changes in fair value. Administrative expenses are recorded on an accrual basis.

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At the year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 3l) include equity index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps, swap option contracts and warrants and rights. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity index swaps are valued based on changes in the appropriate market index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

iii) Credit default swaps are valued based on discount cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

vi) Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, absolute return strategies, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, absolute return strategies, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, absolute return strategies, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

	($ thousands)			
	2011		**2010**	
	Fair Value		**Fair Value**	
		%		%
Interest-bearing securities				
Cash and short-term securities [a]	$ 15,826	1.0	$ 15,801	1.1
Bonds and mortgages [b]	414,316	26.9	387,998	26.1
	430,142	27.9	403,799	27.2
Equities				
Canadian public equities [c]	272,216	17.6	270,732	18.2
Global developed public equities [d]	467,889	30.3	486,310	32.7
Private equities [e]	52,365	3.4	45,145	3.0
Emerging markets public equities [f]	64,778	4.2	55,428	3.7
	857,248	55.5	857,615	57.6
Inflation sensitive				
Real estate [g]	105,083	6.8	85,068	5.7
Infrastructure [h]	79,949	5.2	51,293	3.4
Real return bonds [i]	46,355	3.0	81,948	5.5
Timberland [j]	24,838	1.6	9,194	0.6
	256,225	16.6	227,503	15.2
Total investments [k] [l]	$ 1,543,615	100.0	$ 1,488,917	100.0

NOTE 3 INVESTMENTS CONTINUED

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the Plan's board. The Plan invests in units of pooled investment funds established and administered by AIMCo. The fair value of pool units (see Note 2b) is based on the Plan's share of the net asset value of the pooled investment funds. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

a) Cash and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund, totalling $15,826 (2010: $14,880) and short-term securities of $nil (2010: $921). Terms to maturity and market yield at December 31, 2011 are reported in Note 4c.

b) The bond and mortgage portfolio includes allocations to universe bonds totalling $130,094 (2010: $127,429), long government bonds totalling $226,568 (2010: $199,708) and mortgages totalling $57,654 (2010: $60,861). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. Terms to maturity and market yield at December 31, 2011 are reported in Note 4c.

c) The Plan's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Plan's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Fund's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and MSCI Emerging Markets Free Net Index. A component of the Fund's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.

e) Private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financing, project financing and leverage reductions.

f) Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.

g) The real estate portfolio is primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that

NOTE 3 INVESTMENTS CONTINUED

provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

h) The infrastructure portfolio includes investments in infrastructure partnerships totalling $61,346 (2010: $48,685) and investments in private debt and loans totalling $18,603 (2010: $2,608). Infrastructure partnerships are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks). Private debt and loan investments are in Canada, the United States and Europe. The debt will generally be unrated and if rated would be non-investment grade, i.e. BB and lower. These investments may include senior secured loans, leveraged loans, mezzanine debt and convertible debt.

i) The inflation sensitive real return bond portfolio is primarily made up of bonds that are issued by the Government of Canada, and bear interest at a fixed rate adjusted for inflation. Terms to maturity and market yield at December 31, 2011 are reported in Note 4c.

j) Canadian and foreign timberland investments are inflation sensitive and long-duration. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia. The foreign investment primarily includes forestry and agricultural land in Australia.

k) The table below provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Plan's investments. The measure of reliability is determined based on the following three levels

Level One: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

Level Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, timberland, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

NOTE 3 INVESTMENTS CONTINUED

Investment:	Level one	Level two	Level three*	Total
	($ thousands)			
Interest-bearing securities	$ -	$ 372,488	$ 57,654	$ 430,142
Equities	548,659	211,519	97,070	857,248
Inflation sensitive	-	46,355	209,870	256,225
2011 - Total Amount	**$ 548,659**	**$ 630,362**	**$ 364,594**	**$ 1,543,615**
- Percent	**36%**	**41%**	**24%**	**100%**
2010 - Total Amount	$ 521,684	$ 675,416	$ 291,817	$ 1,488,917
- Percent	35%	45%	20%	100%
Increase (decrease) during the year	**$ 26,975**	**$ (45,054)**	**$ 72,777**	**$ 54,698**

* Reconciliation of Level 3 Fair Value Measurements

	2011	2010
	($ thousands)	
Balance, beginning of year	$ 291,817	$ 245,347
Investment income	33,361	25,528
Purchases of Level 3 pooled fund units	148,742	71,900
Sale of Level 3 pooled fund units	(109,326)	(50,958)
Balance, end of year	**$ 364,594**	**$ 291,817**

l) Included in the fair value of the Plan's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment, or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk, and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counterparty. At December 31, 2011, the net fair value of derivative related investments, including cash collateral and deposits in futures contracts margin accounts, totalled $15,652 or 1.0% of total investments (2010: $19,882 or 1.3% of total investments).

The following is a summary of the Plan's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments at December 31, 2011:

	2011					2010	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount[a]	Net Fair Value[b]	Notional Amount[a]	Net Fair Value[b]
		%					
Equity replication derivatives[c]	93	7	-	$ 823,861	$ 8,779	$ 683,000	$ 12,857
Interest rate derivatives[d]	46	20	34	160,572	(762)	146,085	(1,296)
Foreign currency derivatives[e]	100	-	-	417,119	(876)	208,796	29
Credit risk derivatives[f]	17	20	63	59,044	(1,061)	74,954	(806)
Derivative related receivables, net					6,080		10,784
Deposits in futures margin accounts					9,568		9,098
Deposits as collateral for derivative contracts					4		-
Net derivative related investments					$ 15,652		$ 19,882

NOTE 3 INVESTMENTS CONTINUED

Net derivative related receivables of $6,080 are comprised of net receivables from counterparties of $17,375 and net payables to counterparties of $11,294. The current credit exposure is represented by the amount of net receivables from counterparties. Cash flows associated with receivables and payables on derivative contracts is generally settled every three months.

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts.

(b) The method of determining fair value of derivative contracts is described in Note 2e.

(c) Equity replication derivatives provide for the Plan to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants, and options.

(d) Interest rate derivatives allow the Plan to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

(e) Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(f) Credit risk derivatives include credit default swaps, allowing the Plan to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount, in exchange for a contingent payment, should a defined credit event occur with respect to the underlying security.

At December 31, 2011, the value of equity replication derivatives includes amounts related to counterparties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo. The net fair value of these contracts totalled $1,509 (2010: $540).

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with its investment activities. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 3l).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Interest-bearing securities	
Money market (cash and short-term securities)	0-10%
Fixed income (bonds and mortgages)	18-38%
Equities	38-78%
Inflation sensitive	4-30%

NOTE 4 INVESTMENTS RISK MANAGEMENT CONTINUED

a) CREDIT RISK

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Plan. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of the Plan's investments in debt securities are with counterparties considered to be investment grade.

The Plan is exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo. The following table summarizes the Plan's investment in debt securities by counterparty credit rating at December 31, 2011:

Credit rating	Fair Value
Investment Grade (AAA to BBB-)	88%
Speculative Grade (BB+ or lower)	0%
Unrated	12%
	100%

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all derivative-related receivables from counterparties (see Note 3l). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

To generate additional income, the Plan participates in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. Securities borrowers are required to provide collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) FOREIGN CURRENCY RISK

The Plan is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 39% of the Plan's investments, or $603 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (21%) and the euro (5%).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately $60 million (2010: $67 million). The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2011:

	($ millions)	
	2011	
Currency	Fair Value	Sensitivity
U.S. dollar	$ 318	$ (32)
Euro	71	(7)
Japanese yen	46	(5)
British pound	44	(4)
Australian dollar	29	(3)
Swiss franc	14	(1)
Other foreign currencies	81	(8)
Total foreign currency investments	$ 603	$ (60)

c) INTEREST RATE RISK

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Plan would be approximately $44 million (2010: $48 million).

The following table summarizes the terms to maturity of interest-bearing securities held in pooled investment funds at December 31, 2011:

Asset Class	< 1 year	1 - 5 years	Over 5 years	Average Effective Market Yield
Deposits and short term securities	90%	10%	0%	1.3%
Bonds and mortgages	2%	22%	76%	3.8%
Real return bonds	7%	2%	91%	0.5%

d) PRICE RISK

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pooled investment funds managed by AIMCo. The Plan's investments are recorded at fair value on the statements of financial position. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately $71 million (2010: $70 million). Changes in fair value of investments are recognized in the statements of changes in net assets available for benefits.

e) LIQUIDITY RISK

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 3l).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2008 by Mercer (Canada) Limited and was then extrapolated to December 31, 2011.

The actuarial assumptions used in determining the value of the liability for accrued benefits of 2,159,004 (2010: $2,074,059) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2011	2010
	%	
Discount rate	6.20	6.10
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50

* In addition to age specific merit and promotion increase assumptions.

An actuarial valuation of the Plan as at December 31, 2011 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2012.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

NOTE 5 PENSION OBLIGATION CONTINUED

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2011:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding discount rate and salary escalation assumptions constant **	1.0	124,039	0.7
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	42,784	1.9
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	(286,958)	4.4

* The current service cost as a % of pensionable earnings as determined by the December 31, 2011 extrapolation is 20.61%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

NOTE 6 DEFICIT

	($ thousands)			
	2011			**2010**
	Pre-1992	**Post-1991**	**Total**	**Total**
Deficit at beginning of year	$ (264,778)	$ (315,919)	$ (580,697)	$ (374,927)
Increase in net assets available for benefits	(30,285)	86,655	56,370	145,681
Net decrease/(increase) in pension obligation	15,097	(100,042)	(84,945)	(351,451)
Deficit at end of year	$ (279,966)	$ (329,306)	$ (609,272)	$ (580,697)

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension obligation and deficiency with respect to service that was recognized as pensionable as at December 31, 1991.

The following table summarizes the fair value of net assets, pension obligation, and the resulting Plan deficiency as at December 31, 2011:

	($ thousands)			
	2011			**2010**
	Pre-1992	**Post-1991**	**Total**	**Total**
Plan Fund net assets available for benefits	$ 549,712	$ 965,232	$ 1,514,944	$ 1,464,230
Plan Fund pension obligation	829,678	1,294,538	2,124,216	2,044,927
Plan Fund deficiency	$ (279,966)	$ (329,306)	$ (609,272)	$ (580,697)

As at December 31, 2011 the Indexing Fund held investments of $34,788 (2010: $29,132) with offsetting liability for accrued benefits of the same amount. The Indexing Fund deficiency is $nil (2010: $nil).

This Plan deficiency is for accounting purposes and may differ from the Plan Fund deficiency for funding purposes (Note 16).

NOTE 7 CONTRIBUTIONS

	($ thousands) 2011	2010
Current service		
Employers	$ 35,734	$ 34,362
Employees	31,983	31,012
Unfunded liability		
Employers	14,037	8,462
Employees	14,037	8,462
Province of Alberta	4,269	4,083
Past service		
Employers	162	281
Employees	749	345
Transfers from other plans (net)	234	633
	$ 101,205	$ 87,640

NOTE 8 INVESTMENT INCOME

Investment income is comprised of income earned from investments in units of pooled funds which are created and managed by AIMCo.

The following is a summary of the Plan's investment income by asset class.

	($ thousands) 2011	2010
Interest-bearing securities	$ 51,766	$ 38,883
Canadian equities	(21,038)	44,360
Foreign equities	(22,134)	35,115
Private equities	2,983	3,342
Real estate	18,316	9,296
Real return bonds	8,750	8,175
Infrastructure	2,922	4,465
Timberland	4,498	147
	$ 46,063	**$ 143,783**

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results, net of fees, attained by the Plan.

	2011	2010	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Eighteen-Year Compound Annualized Return
Time-weighted rates of return [a]			*(in percent)*		
Actual gain	2.7	10.2	1.4	5.3	6.8
Policy Benchmark gain [b]	2.2	10.5	2.4	5.5	6.8
Value added (lost) by investment manager	0.5	(0.3)	(1.0)	(0.2)	0.0
Expected value added [c]	1.0	1.0	1.0	1.0	1.0

[a] Investment returns are provided by AIMCo. The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially

invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

(c) In the SIP&G, the Special Forces Pension Board expects that the investments held by the Plan will return approximately 100 basis points, or 1.0%, above the policy benchmark return.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2011	**2010**
Retirement benefits	$ 78,725	$ 75,715
Disability benefits	$ 349	$ 352
Termination benefits	4,168	2,496
Death benefits	1,032	853
	$ 84,274	$ 79,416

NOTE 11 INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by the Plan and its share of expenses through pooled investment funds.

Investment services provided directly by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

The Department of Finance provides investment accounting and reporting for the Plan and treasury management services. A portion of these costs is charged to the Plan. Investment expenses as a percentage of average fair value of investment assets and per member are provided below:

	($ thousands)	
	2011	**2010**
Interest-bearing securities	$ 598	$ 494
Canadian equities	434	383
Foreign equities	1,861	1,916
Private equities	1,016	1,036
Real estate	456	354
Real return bonds	80	63
Infrastructure	518	555
Timberland	155	78
Total investment expenses	$ 5,118	$ 4,879
Average fair value of investments	$ 1,516,266	$ 1,416,617
Percent of investments at average fair value	0.34%	0.34%
Investment expenses per member	$ 794	$ 783

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands)	
	2011	2010
General administration costs	$ 1,001	$ 1,107
Board costs	78	52
Actuarial fees	165	93
Audit fees	33	32
Other professional fees	229	161
	$ 1,506	$ 1,445
Member service expenses per member	$ 234	$ 232

General administration costs including Plan board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of the APS's operating and plan specific costs was based on cost allocation policies approved by the Minister of Alberta Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $6,624 (2010: $6,324) or $1,028 (2010: $1,016) per member and 0.43% (2010: 0.42%) of net assets under administration.

NOTE 14 REMUNERATION OF BOARD MEMBERS

Remuneration paid to or on behalf of the Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective April 1, 2009		
Up to 4 hours	$ 219	$ 164
4 to 8 hours	383	290
Over 8 hours	601	427

	2011	2010
The following amounts were paid:		
Remuneration		
Chair	$ 13,675	$ 6,443
Members	29,146	23,719
Travel, training and conference expenses		
Chair	5,985	2,480
Members	27,515	19,240

NOTE 15 TRANSFER FROM THE INDEXING FUND TO THE PLAN FUND

If the Board has set a COLA increase and the conditions have been met under the Act (i.e. plan's actuary has certified that the indexing fund contains enough assets to cover the increase) the Minister shall, on the recommendation of the Board, transfer from the Indexing Fund to the Plan Fund the amount certified by the Plan's actuary to cover the cost-of-living increases for post-1991 service. Effective January 1, 2011 there was an approved transfer of $300 from the Indexing Fund to the Plan Fund. Effective January 1, 2012, COLA at 30% of the Alberta Consumer Price Index will be applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 16 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's surplus (deficiency) is determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $1,567,109 at December 31, 2011 (2010: $1,418,465), comprising of $555,685 (2010: $547,082) Pre-1992 and $1,011,424 (2010: 871,383) Post-1991.

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by actuarial funding valuation is financed by a special payment currently totalling 6.72% of pensionable salary shared equally between employees and employers (3.36% each) until December 31, 2023. The special payment is included in the rates in effect at December 31, 2011 (see Note 1b).

Effective January 1, 2011 awards of COLA at 30% of the Alberta Consumer Price Index will be applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 21, 2000.

NOTE 17 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2011 presentation.

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance, based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.